



Society of Actuaries in Ireland

General Insurance Newsletter December 2020

General Insurance Committee

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Committee membership

Welcome to five new members joined the Committee recently – Aaron Kenny, Andrew Harford, Aoife O'Brien, Graham Crowley and Tiago Pedro. A number of members have stepped down from the Committee and we thank them for their contribution: Aoife Martin, Dermot Marron, Dermot O'Hara and Tanya Beattie.

CBI – COVID-19 & BI Supervisory Framework

On 5 August 2020 the Central Bank of Ireland (CBI) published their '[COVID-19 and Business Interruption Insurance Supervisory Framework](#)'. This Framework sets out what it expects from insurers when dealing with claims arising from BI insurance policies as a result of the current pandemic. This Framework also sets out how it will engage with the insurers and its overall approach to supervision including escalation of any issues identified.

Publication of the Framework sets out five expectations of insurers (and which aligns to the Dear CEO [letter](#) issued in March 2020):

- 1 Insurers are expected to comply with all legal and regulatory obligations.
- 2 Senior Management are expected to be responsible and accountable.
- 3 Insurers are expected to treat the Government communication to businesses in March 2020 to close their business as a direction / mandate / order.
- 4 Insurers are expected to interpret unclear policy wording in the way most favourable to the customer.
- 5 Insurers are expected to handle claims and legal actions effectively and efficiently and pay reasonable costs incurred by the customer where a court rules in favour of the insurer (i.e. refrain from seeking its costs from the policy holder).

The Framework is made up of four modules, all of which feed into each other and which are being run concurrently.

Module One – Scope, Information Gathering & Certification. The CBI is using its statutory enforcement powers to gather information from insurers in relation to processing and handling of claims; calculation of losses under BI policies; on-going and concluded legal actions; and information regarding settlements and any wider impact for similar customers.

Module Two – Analysis and Categorisation. The CBI will analyse and categorise the information from Module 1 focusing on three main issues: Whether appropriate cover was in place (Cover); Whether COVID-19 resulted in loss (Causation); and quantum (of compensation payment) and claims handling.

Module Three – Supervisory Engagement and Escalation: Assessment of what supervisory engagement and/ or escalation is required in respect of the investigations as outlined in the modules above. This module will include categorising policies into responsive policies, potentially responsible policies, nonresponsive policies, quantum and claims handling and it sets out the CBI expectations for each.

Module Four – Legal Action Outcomes – Wider Beneficial Impact Assessment: Where relevant legal action has taken place, the CBI expects the insurers to carry out an impact assessment to assess whether similar customers are impacted following the decision (i.e. determine the systemic nature of the decision).

NCID

The National Claims Information Database (NCID) is a repository for aggregate claims data. The purpose of the NCID is to increase transparency around the cost of claims. Aggregate data is collected from insurers, including premium, policy and claims data. This allows the Central Bank to publish an annual report containing analysis of the cost of claims, the cost of premiums, how claims are settled, how settlement costs vary depending on how claims are settled, and an analysis of the various types of cost that make up settlements. Private motor insurance was selected to be the initial class of insurance in scope of the NCID. In December 2019 the Central Bank released its first NCID report and in November 2020 the second edition was released and can be read [here](#). The high-level key findings are shown in the tables below:

Cost of Insurance 2009-19 Cost of claims per policy

- Cost of claims per policy reduced by 9%
- 2009-2013: claims costs reduced by 14% from €438 to €375
- 2013-2018: claims costs increased by 7% from €375 to €402
- 2018-2019: claims costs reduced by 1% from €402 to €400

Premium per policy

- Premium per policy increased by 35%
- 2009-2013: premiums reduced by 13% from €499 to €435
- 2013-2018: premiums increased by 63% from €435 to €707
- 2018-2019: premiums reduced by 4% from €707 to €676

Claims as % of premiums

- Claims were on average 72% of premiums
- High of 92% in 2014
- Low of 57% in 2017 & 2018

- 59% in 2019

Cost of a claim

- Average cost of a claim increased by 65%
- The cost of an injury claim increased by 53%
- The cost of a damage claim increased by 6%
- Cost per claim increased 4% from 2018 to 2019

The NCID have recently collected data from insurers for Employers Liability and Public Liability business and are expecting to report on their findings in the first half of 2021.

Members of the Committee meet on a quarterly basis with the CBI team responsible for the NCID.

CBI letter on differential pricing

In early September the CBI issued a [letter](#) to insurers identifying a number of issues with the approach adopted to differential pricing in the Motor and Home insurance markets.

The Bank defines differential pricing as *“a circumstance or practice whereby customers with a similar risk and cost of service are charged different premiums, for reasons other than risk and cost of service. This includes the use of any modelling technique or the application of a non-risk adjustment during the pricing process which leads to customers with a similar risk profile and cost of service being charged differing premiums.”*

The key issues observed by the CBI include:

Differential Pricing Practices: While a number of firms maintain that they do not utilise differential pricing in their pricing practices, the Central Bank observed that the majority of firms do utilise differential pricing through various techniques. Firms have a responsibility to understand fully the impact of pricing practices

on their customers. Failure to recognise and / or acknowledge the practice of price differentiation raises significant concerns about a firm's ability to assess this impact.

Governance and Controls: It is not always evident that Boards of Directors have appropriately considered or discussed the impact of their firms' differential pricing practices on their customers.

Culture and Conduct: There is insufficient evidence of a customer focussed culture in respect of pricing decisions and practices. Firms must ensure that customers are at the centre of pricing decisions as part of the pricing process.

As a result, The CBI requires firms to assess their methods and practices against the Bank's definition, and to take responsibility at Board level for the impact of differential pricing on customers, to ensure a pricing practices are well-governed, with appropriate oversight.

The CBI's work mirrors a series of reports on general insurance pricing practices by the Financial Conduct Authority in the UK. The FCA's first interim [report](#) was published in October 2019, and the final [report](#) was published in September 2020. The final report was followed up by a consultation We "on rules and guidance to implement a package of remedies to address the harms identified in the general insurance pricing practices market study".

The consultation closes in January 2021 and is available [here](#).

STOP PRESS – the CBI has just issued its [Interim Report on the Review of Differential Pricing in the Private Car and Home Insurance Markets](#) which the Committee will review and report on in the next Newsletter.

Personal Injury Discount Rate Consultation – the Society's response

As reported in the August Newsletter, in June, the Department of Justice and Equality launched a public consultation on the personal injury discount rate. This rate is used by the courts in cases involving catastrophic and other personal injuries to determine the size of an award necessary to compensate a person for damages for future loss. A review of this rate arose as one of the recommendations of the Cost of Insurance Working Group.

The Society set up a small group of practitioners and representatives of relevant committees to draft a response and submitted its response at the end of August.

In the preamble to its response the Society confirmed its views that;

- the discount rate should be set with the aim to compensate plaintiffs fully for their losses and that there may be merit in applying different discount rates to different classes of plaintiff. For example, a catastrophically injured plaintiff is in a very different position a plaintiff who has experienced a relatively small diminution of income.
- the process and procedures for setting the discount rate should be both balanced and independent.
- if the Minister retains the power to change the rate, then it should be in the context of, and on the basis of, advice from a panel of independent experts.

The rest of the submission was in the form of responses to specific questions posed by the consultation.

A key question in the consultation was around the assumed investment risk profile for the claimant. The Society's view was that, catastrophic injuries aside, for less severely

injured claimants the assumed profile is likely to be that of a “prudent investor” rather than a “low-risk” or “very risk-averse” investor.

Other key aspects of the responses included:

- the importance of stability and predictability of the discount rate;
- that a panel of experts, including one or more actuaries, should be established to advise on the appropriate rate;
- that the courts should retain the ability to depart from the prescribed rate where circumstances require; and
- that the rate should be formally reviewed every 3-5 years, with flexibility for a special interim review if issued arise.

The Society’s full response is available [here](#).

Central Bank of Ireland CP 131 Regulations for pre-emptive recovery planning for (re)insurers

The Central Bank of Ireland published the [Consultation Paper 131 on Regulations for pre-emptive recovery planning for \(re\)insurers](#) (CP131) on 25 June 2020 and the consultation closed for feedback on 30 October 2020. It sets out the CBI’s expectations for (re)insurance undertakings in preparing pre-emptive recovery plans. It includes draft regulations and is supplemented with draft guidelines. It states that the objective of requiring a Pre-emptive recovery plan is to:

- Promote awareness and allow firms to prepare for a range of possible adverse situations;
- Enable firms to consider and evaluate the most appropriate and effective mitigation without the resulting pressures of actual severe stress; and

- Enable firms to make more effective, comprehensive and thoughtful measures to ensure their timely implementation if required.

The Central Bank invited general feedback on the Regulations and the Guidelines from interested stakeholders. In addition, the Central Bank requested that respondents consider two specific questions:

- What, if any, other areas should be covered in the Guidelines or in future guidance?
- Are there any areas where the application of proportionality can be improved or clarified?

A cross-practice working group drawn from ERM, GI and Life Committees submitted [a Society response](#) to this consultation. The working group responded to the two specific questions above, as well as commenting on the following key topics. Detailed observations and suggested wording changes were also provided.

- Linkages with ORSA and Solvency II
- Complexity and length of the formal reporting
- Financial Support from other undertakings
- Alignment with European developments

Domhnall Cullinan, Director of Insurance Supervision at CBI referred to the consultation recently as part of his opening remarks at the 2020 Insurance Industry Briefing. He noted that “Following completion of the consultation process, the Bank anticipates finalising the Regulations in early 2021 with a view to having plans in place by late 2021.”

Consultation responses

There has been a lot of activity in recent months in relation making submissions on behalf of the Society to consultations and surveys from European institutions. The approach taken in relation to these is to submit the Society's views to the AAE, who collate the views of European actuarial associations and make an AAE submission. Submission made by AAE can be found [here](#). In addition, the Society has responded to two surveys issued by the AAE. The Society inputs to the AAE will shortly be available on the website.

Many thanks to the members of the GI Committee and other members of the Society who are active in general insurance who contributed to the Society responses; in most cases these were in conjunction with members of other relevant Committees e.g. Life, ERM.

- [EIOPA consultation on Methodological Principles of Insurance Stress Testing](#).
- [EC Consultation on Review of prudential rules for Solvency II](#).
- **AAE survey on climate related risks**
- **AAE survey to assess the appropriateness of the Solvency II framework following Covid-19, to compare the measures taken at local level and to identify possible areas of development**
- [EIOPA consultation on a proposed Supervisory Statement on the use of risk mitigation techniques by insurance and reinsurance undertakings](#)
- [EIOPA Consultation paper on draft Opinion on the supervision of the use of climate change risk scenarios in ORSA](#)

Non-Life Pricing Seminar CPD Event

The annual non-life pricing CPD event was held across two webinars in October, with sessions chaired by Niamh Gaudin and Noel Garvey from the GI Committee. Event summaries including a copy of the presentations can be found on the SAI Website ([Part 1](#) & [Part 2](#)). The topics discussed at the seminar were:

- The impact of COVID-19 on personal lines pricing: Cecilia Cheuk & Graham Wright, *Willis Towers Watson (Part 1)*
- Delivering good customer outcomes from pricing: James Hillon and Jean Rea, *KPMG (Part 1)*
- Data, Modelling and Ethics: Pedro Ecija Serrano, *Grant Thornton (Part 2)*

Thank you to all our speakers and attendees. Video recordings of both events are available on actuvue ([Part 1](#) & [Part 2](#)), which can be used for the purposes of verifiable CPD.